

FDIC State Profile

Winter 2005

Kansas

Kansas' economic expansion remained uneven in third quarter 2005.

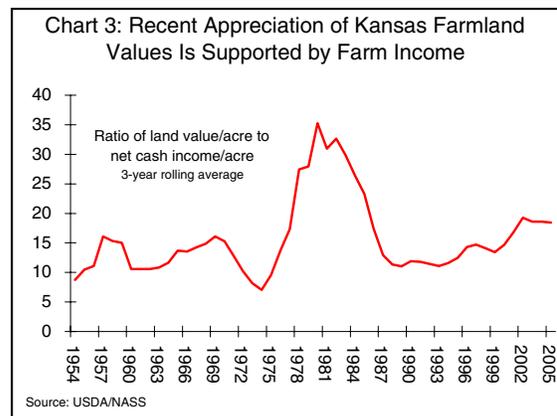
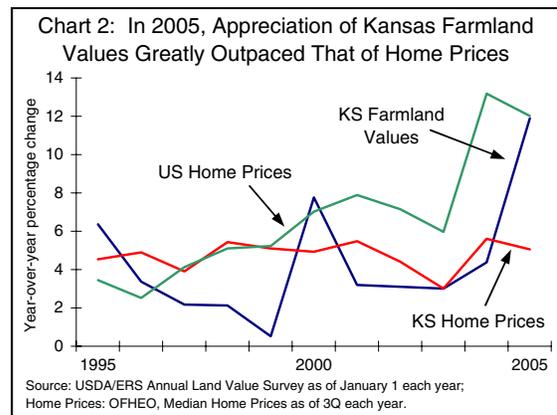
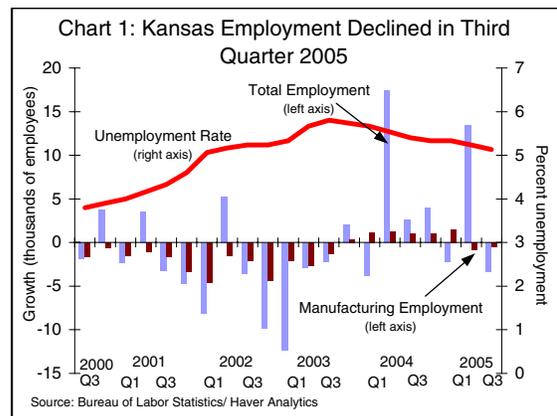
- Kansas' economy lost 3,300 jobs in third quarter 2005 (see Chart 1). Job declines were in the state's manufacturing, information industries, and leisure and hospitality sectors
- However, the Kansas economy still added over 12,000 jobs on a year-over-year basis, with gains in every job sector except information. Kansas has regained more than 32,000 of the 43,000 jobs lost during the 2000 to 2003 downturn.
- While aerospace manufacturing began to recover strongly in 2005, total manufacturing is still more than 24,000 jobs below the peak achieved in third quarter 2003.
- Despite job losses, third quarter unemployment fell to 5.1 percent, the lowest level since first quarter 2002, as the labor force declined faster than total employment.

The value of Kansas farmland surged 11.9 percent in 2005.

- In the past year, Kansas farmland values increased at a greater rate than home prices, but home prices in the state have appreciated considerably less than the national average (see Chart 2).
- According to the United States Department of Agriculture, Kansas farmland values increased 11.9 percent to \$800 per acre in 2005. While \$800 is a record for Kansas farmland value in nominal terms, when adjusted for inflation, the 2005 farmland price is only 66 percent of that achieved in 1980, when farmland values reached historic levels.

Kansas farmland values have risen faster than net cash farm income in recent years.

- After the mid-1980s, the ratio of Kansas farmland value to net cash farm income (per acre) has historically varied over a narrow range. From 1985 to 1999, the ratio was stable at around 12, implying that farmland value was closely related to the level of cash income produced on the land (see Chart 3). The price-income ratio had skyrocketed to an average of 31 from 1976 to 1984, reflecting a spike in land prices during that period.



State Profile

- From 2000 to 2005, farmland values have grown faster than net cash farm income. The price-income ratio has averaged 18.9, suggesting that factors other than agricultural productivity, such as low interest rates and demand for non-farm uses of the land, have contributed to the appreciation.

Kansas insured institutions report continuing strong operating results, but deposit disintermediation appears to have returned.

- Third quarter earnings performance remained positive. Median net interest margin increased 7 basis points from one year earlier to 4.01 percent as community institutions benefited from rising short-term rates. Additionally, strong loan growth continued. The third quarter 2005 median loan-to-asset ratio increased 1.3 percentage points from a year earlier to 62.3 percent.
- While institution deposit-to-asset ratios stabilized from 2000 to 2003, coinciding with declining desirability of alternatives to deposits such as stock investments, the resurgence of equities is again causing deposit levels to lag (see Chart 4).

Stronger demographics lead to higher deposit growth rates in Kansas metropolitan areas.

- Annual Summary Deposits data as of June 30, 2005, show that deposit growth among community bank branches in Kansas metropolitan areas has outpaced the rest of the state over the past five years.¹ Primarily, this is indicative of the growing polarity in Kansas population growth (see Table 1).
- Seeking better growth opportunities, an increasing number of nonmetropolitan-based institutions in Kansas are opening branches in metropolitan areas. In 1995, 5 percent of banks headquartered in nonmetropolitan Kansas had branches in metro areas. That proportion has steadily increased, registering 10 percent in 2000 and 12 percent in 2005.
- Although branching into metro areas might provide increased deposit growth opportunities for some institutions, it might also subject them to greater direct competition with significantly larger institutions.

While statewide bank branch growth continues in Kansas, large bank control is declining.

- The pace of bank branch growth in Kansas was lower for the four quarters ending June 2005 compared to the previous year.

- Most of the bank branch growth has been at smaller organizations—those with combined assets of \$10 billion or less. Larger bank control has steadily declined in the state's urban areas (see Chart 5). Some large banks have slowly shed branch locations, many of which were acquired by smaller organizations, while smaller organizations and new bank organizations have been adding bank branches.

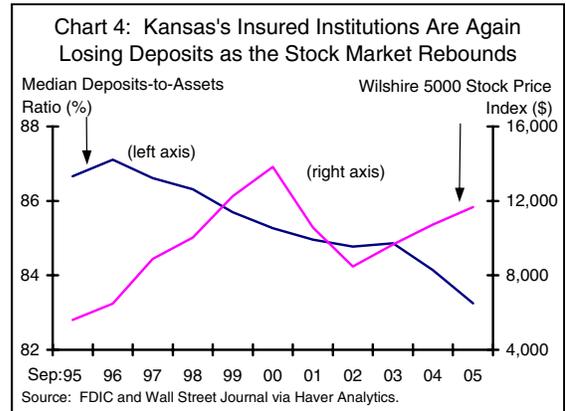
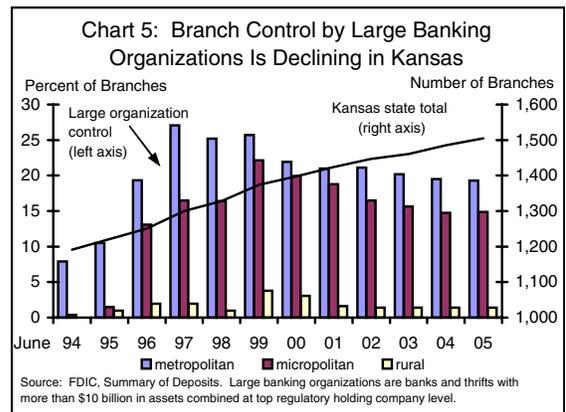


Table 1: Community Bank Deposit Growth Is Stronger in Kansas' Metropolitan Areas

Kansas Branch Location	Deposit Growth	Population Growth
Metropolitan	7.5	1.1
Micropolitan	5.2	-0.3
Rural	4.8	-1.0
Statewide	6.0	0.4

Source: FDIC, U.S. Census Bureau, Community banks in operation since at least 1997. Annualized growth rates: deposits '00-'05, population : '00-'04.



¹For this Profile, the term "branches" includes banking facilities in main offices and branch locations.

Kansas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2004
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.3%	1.3%	0.8%	-1.7%
Manufacturing (13%)	0.4%	1.9%	2.2%	1.0%	-5.0%
Other (non-manufacturing) Goods-Producing (5%)	5.0%	5.5%	3.3%	1.9%	-0.6%
Private Service-Producing (62%)	1.2%	0.8%	1.1%	0.8%	-1.5%
Government (19%)	0.5%	1.3%	0.8%	0.7%	-0.2%
Unemployment Rate (% of labor force)	5.2	5.2	5.4	5.5	5.6

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2004
Personal Income	N/A	6.5%	5.3%	5.0%	2.8%
Single-Family Home Permits	9.0%	6.8%	4.7%	-0.6%	11.6%
Multifamily Building Permits	32.3%	70.8%	-42.4%	-53.4%	39.4%
Existing Home Sales	8.4%	4.8%	3.1%	12.4%	8.8%
Home Price Index	5.0%	5.6%	5.6%	4.9%	3.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	8.46	7.81	6.21	5.94	5.73

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2004
Institutions (#)	371	371	372	372	380
Total Assets (in millions)	59,054	58,455	56,574	57,819	53,056
New Institutions (# < 3 years)	3	4	6	3	8
Subchapter S Institutions	160	160	157	157	150

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2004
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.45	1.39	1.59	1.45	1.63
ALLL/Total Loans (median %)	1.35	1.35	1.44	1.37	1.38
ALLL/Noncurrent Loans (median multiple)	2.09	2.00	1.83	2.17	2.06
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.01	0.07	0.10

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2004
Tier 1 Leverage (median %)	9.94	9.67	9.60	9.55	9.34
Return on Assets (median %)	1.14	1.09	1.09	1.00	0.97
Pretax Return on Assets (median %)	1.34	1.36	1.34	1.23	1.23
Net Interest Margin (median %)	4.09	4.07	4.00	3.96	3.97
Yield on Earning Assets (median %)	6.02	5.79	5.52	5.47	5.75
Cost of Funding Earning Assets (median %)	1.93	1.74	1.49	1.50	1.75
Provisions to Avg. Assets (median %)	0.01	0.00	0.04	0.08	0.11
Noninterest Income to Avg. Assets (median %)	0.63	0.60	0.61	0.61	0.64
Overhead to Avg. Assets (median %)	3.00	2.94	2.95	3.01	3.01

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2004
Loans to Assets (median %)	62.2	62.3	61.0	60.6	60.1
Noncore Funding to Assets (median %)	18.5	17.8	17.0	17.1	15.8
Long-term Assets to Assets (median %, call filers)	8.9	9.9	11.4	10.3	11.8
Brokered Deposits (number of institutions)	58	58	53	58	49
Brokered Deposits to Assets (median % for those above)	3.6	4.2	2.8	3.2	2.6

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2004
Commercial and Industrial	83.7	84.1	81.0	82.8	81.6
Commercial Real Estate	83.8	83.2	80.5	74.2	70.8
Construction & Development	12.0	10.9	10.3	10.3	10.6
Multifamily Residential Real Estate	0.5	0.4	0.1	0.0	0.0
Nonresidential Real Estate	58.6	58.1	57.2	56.6	53.9
Residential Real Estate	119.8	121.3	124.6	125.7	122.9
Consumer	39.1	41.2	43.2	41.5	47.8
Agriculture	142.6	147.5	145.0	146.0	146.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	
			Institutions	Institutions
Kansas City, MO-KS	152	32,593	< \$250 million	327 (88.1%)
Wichita, KS	58	8,453	\$250 million to \$1 billion	35 (9.4%)
Topeka, KS	38	4,216	\$1 billion to \$10 billion	9 (2.4%)
St. Joseph, MO-KS	26	1,762	> \$10 billion	0 (0%)
Lawrence, KS	25	1,405		